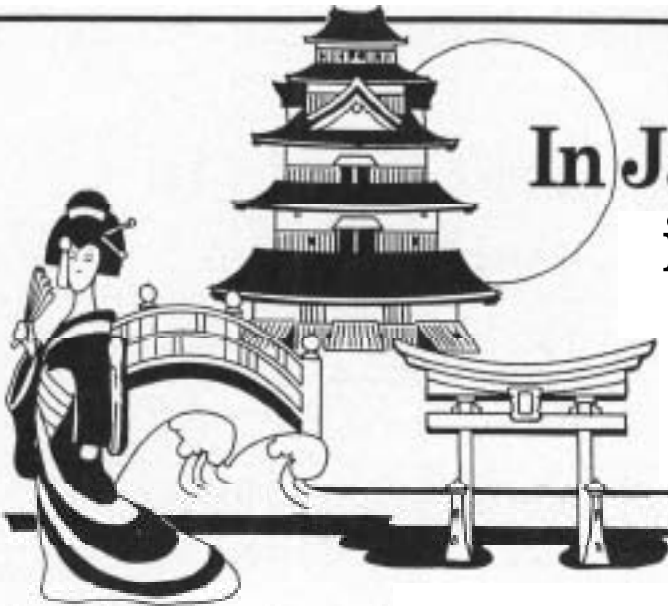


In Japanese—Quality is spelled ANGUS

By Barbara LaBarbara
Sacramento, California



There's a stirring in the cattle world. Beef has become a global commodity and the Japanese are buying in.

Japanese quotas have been raised and in the U.S., an undercurrent of optimism is being buffeted by suspicion and caution. Confusion and rumors run rampant under a veil of secrecy.

Some people contend the Japanese are secretive because they do not wish to be seen as competitors to the U.S. cattleman. Others say their enigmatical behavior is due to not knowing the cattle business in detail. The fact is the Japanese are very cautious when doing business with strangers.

"Our main priority in the last few years has been to open the Japanese market," says Tom Cook, of the National Cattlemen's Assn. "Now that it is open, we don't know what to do with it." Cook heads up the animal health and foreign trade interests of NCA.

With Japan's venture into the world of beef, the U.S. is being offered unique opportunities. As cattlemen overcome the controversies and meet the demands for quality, Angus breeders could find themselves the real beneficiaries in the Japanese market.

Not only do Angus breeders have an unmistakable advantage because of the high quality Japanese pursue but, also because black is the color of Japan's native beef breed, the Wayu. Naturally, they prefer cattle with black hides. The Wayu is the breed source of Japan's expensive, preferred Kobe beef.

On July 5, 1988, Japan signed a trade agreement that increased quotas by 60,000 metric tons each year (2,204 pounds equal one metric ton). The agreement opened in 1988 and called for an end to all quotas by the beginning of Japanese fiscal year, April 1, 1991.

Because the agreement was not signed until July, the Japanese did not start picking up their purchases until August. They had a twelve-month commitment to increase their quota by 60,000 mt and only had eight months to do it in. This created a rush in late summer and early fall purchases and put as much as \$3 per hundred on fat cattle.

Barbara Watson, market analyst for Meat Export Federation, reported our exports to Japan went up 28 percent in metric tons (1988 over 1987) and 51 percent in dollar value. For the U.S. cattleman, that was good news. For the Angus breeder it was important because it was their cattle bringing the premiums.

The Japanese total market access for beef (all beef going into Japan of which the U.S. expects to get at least 40 percent) will be increased to the following levels: Fiscal year 1988, 274,000 metric tons; 1989, 334,000 mt; 1990, 394,000 mt. On April 1, 1991, the import allocation system on beef will be terminated and the market will be liberalized.

Japanese hotel and restaurant beef import allocation will increase at a related rate: 1988, 10,000 mt; 1989, 13,000 mt; 1990, 16,000 mt with all quotas being lifted in 1991.

In 1988, three other foreign buyers, Canada, Mexico, and Korea contributed to foreign beef demand and created sig-

nificant price increases for the U.S. cattleman. (*National Cattlemen Magazine, January, 1989*).

An agreement with Canada calls for the elimination of trade impediments between the two countries within the next 10 years. More economical border and import meat inspection systems should facilitate beef trade.

Mexico imported little beef product from the U.S. in 1988 but made up for it by importing 100,000 head of fed cattle in that time period. With USDA Commodity Credit Corporation financing, U.S. beef imports into Mexico have jumped an amazing 469 percent since 1987.

A small but increasingly important market for U.S. beef is Korea. The 1988 Olympic games marked the beginning of what could become a significant market. Exports to Korea in dollars increased from 1.7 million in 1987 to 25.6 million in 1988.

The metric ton and dollar value increase of 1988 over 1987 to those countries increased by surprising percentages. Canada, 40 percent in metric tons, 45 percent in dollar value; Mexico, 276 percent mt, 469 percent dollar value; Korea, 2,097 percent mt., 1,441 percent dollar value. The percents in Korea don't mean very much because the actual tonnage they purchased in 1988 was only 5,537 mt. The point is Korea, in the future, will become a factor in exports. Compare those percents to the overall eight percent increase in U.S. total world export figures for 1988. Eight percent in itself is a substantial increase for one year.

Cook of NCA says, "Two issues have opened up due to the lifting of quotas. One is the Japanese have come to the U.S.



and bought a few ranches, some feed lots, and a couple of packing plants. We really don't know how much they have. All of the sudden, Americans are getting cautious and wary. They would have rather sold the product than the factory.

"The other question is, how do we measure the impact of the Japanese market? What influence does it have as we report prices and give new outlooks on the market? The Japanese are a factor that has not been there before.

"Overall," he continued, "it is not known what effect the Japanese activity is having on the market. I do know when economists, cattle buyers, and packers talk in terms of the 'the Japanese were in the market last week or they weren't', the impact must be significant."

A lot of cattlemen contend after a 25 year slump this is the best thing to happen to them. Cattlemen believe it is a shot in the arm for the general rancher.

Japanese buyers are active both privately and at livestock markets and are paying top dollar. But, according to Gary Pennington, Cattlemen's Livestock Market, Galt, Calif., you can't always tell when it is a Japanese account.

Because the stories are riddled with rumors and hearsay, we probably will never find out how many cattle the Japanese have bought and are buying. Their transactions are moving almost too fast to track.

"In the fall, when the black percents were good, a lot of numbers went to Fat City at Gonzales and Harris Ranch (Japanese interests.) Thirty percent of the cattle going through the auction were black, of those 20 to 25 percent were Choice black cattle," Pennington said. "In January, when the black numbers dropped to two percent, things slowed down. The Japanese just can't find all the black cattle they need and have been forced to purchase others."

According to Watson of MEF, Japan is the single most important foreign market for U.S. beef and currently accounts for about 75 to 80 percent of total U.S. beef exports.

The Meat Export Federation expects U.S. exports to Japan to double in the next three years and after the quotas open up the U.S. exports have the potential to triple. The U.S. currently exports less than two percent of the beef it produces.

Watson contends as the U.S. increases its world market exports there will be a significant impact on domestic availability and prices. Cattleman will benefit.

Among the good news is the Japanese are extremely interested in Angus and Angus-cross cattle. Homero Recio, International Programs Assistant, Meat Export Federation, says Angus is synonymous with quality to the Japanese.

Recio worked with the Certified Angus Beef program before joining MEF in

February, 1988. He claims because of the connection Angus has with quality in Japan, the CAB program has been successful in its effort to market product them. However, CAB's not alone. Others have very successfully fed black cattle and marketed them as Angus to the Japanese.

"A word of caution to Angus breeders. Even with the CAB specifications at only Average Choice or higher, nationwide there is less than 25 percent acceptance," Recio says. "That is for every hundred black cattle identified, 25 make the program. However, Angus are ahead of the pack. The Japanese want quality and when you see Angus cattle that are just making 25 percent, think about where the other breeds must be."

Toshi Tanaka, a member of the U.S. Meat Export Federation, Tokyo, tells us in Japan, food is viewed as an art form requiring superior ingredients. Certified

Angus Beef fits because of its quality and consistency.

John Morse is president of Zenchiku Land and Livestock, Inc., new Japanese owners of the Selkirk Ranch in Montana. He states, "High quality beef can come with literally any sort of hide on them, but from our (Japanese) focus we think Angus have the most to offer in terms of the genetic pool that's available."

As an association and breed group, he finds the Angus people have focused keenly on identifiable, heritable characteristics. They have done the most work on overall carcass improvement and evaluation standards. He continued, "If there were to be a model program for someone wanting to raise high-quality beef, the CAB program is the best one I know."

Even though the Japanese look for high-quality black cattle, Angus breeders do not have the market all tied up. The Japanese like a touch of exotic in their

cattle to get them to the 1,400-pound weight in the feedyards. Another factor in the scenario, can Angus people deliver the numbers the Japanese need? If not, they will go to the other sources such as Australia who have become a strong contender for the Japanese market.

According to Steve Kay, *Cattle Buyers Weekly*, four words sum up why the Japanese are here: 'U.S. grain-fed beef. They want marbling. No longer do they want just outside fat. They are beginning to switch from inexpensive to expensive cuts from high quality carcasses. We are through sending our garbage over there.' He contends we will see very dramatic changes in the next five years, in terms of beef processing and quality of beef products being shipped to Japan.

A Dillion (Mont.) *Tribune* editorial by Ken Olson presented this story regarding the Japanese purchase of the Selkirk Ranch in October, 1987.

The Missouri Department of Agriculture sponsored Hurlbut's trip and conducted a casual seminar for Japanese food industry officials and firm representatives.



Dean Hurlbut, Tony Clayton of the department, and representatives of the firm DAIMARU KOGYO, LTD., Hiroshi Mima and Nobuyasu Uchida. One-on-one gatherings were common during the five-day session as Japanese posed questions on the supply and quality of both Missouri products and Angus possibilities.



Traffic was steady as Japanese buyers considered the wealth of items they need to fill growing demand.



The Association is involved

Recent sale of Angus heifers to Japan is but one example of the association's activity in the export of seedstock abroad. The Japanese market is hot right now both for seedstock and Certified Angus Beef.

Director of Activities for American Angus Assn. Dean Hurlbut raised the Angus flag at the VIV-ASIA Trade Show in Tokyo. One of the American groups invited to display their wares at this major event was the Missouri State Department of Agriculture. This proved major exposure for American goods as the trade show is one of the largest in the world and was also billed the Second International Fair for Intensive Production.

Dean was one of a contingent comprised of: The Missouri Department of Agriculture, Missouri Cattle Breeders (Genetic Horizons), Rigby Equine Sales, Missouri Valley Exports (equine), Slocum Farms (Polled Hereford & and of course, the American Angus Assn. Certified Angus Beef was also represented in a separated booth in the exhibition pavilion.

Dean reported Angus are a known commodity in the nation and respect for the breed and its quality products is becoming more common knowledge among Japanese with interests in agriculture. "After five days of manning the booth—visiting, handing out literature ... it is obvious the Japanese people are familiar with the Angus breed. They are interested in quality beef on the hoof and on the rail.

During his duty as the Angus representative for both the breed and the State of Missouri, Dean made numerous contacts with those firms interested in importing either beef or breeding stock. Showing the Japanese version of a Certified Angus Beef video created a steady stream of those both curious and anxious to discuss and compare American and Japanese beef.

"Some folks formed their lips into a big 'O' and said 'oh, no.' Other folks mouthed 'O', but were saying 'opportunity' instead." He is putting his money with 'O' for opportunity. Those reactions are common as the Japanese move into all phases of the U.S. beef industry

When the Selkirk Ranch sold to Zenchiku, there was a hum of excitement in the Dillon air. Turist trade as well as the local feed stores and implement dealers were watching the purchase with interest.

Zenchiku paid \$13 million for the ranch and 6,000 head of cattle. The ranch consists of 28,000 deeded acres and 45,000 acres of public land.

The new owner, Zenchiku Land & Livestock Co. is a subsidiary of Tokyo based Zenchiku Ltd., a publicly traded firm with about 1,000 employees and annual sales of \$1.2 billion in beef, pork, and poultry Sixty percent of their deal-

ings are with beef. Zenchiku is the largest Japanese importer of U.S. and Australian beef

John Morse who manages the ranch for Zenchiku has been a Montana rancher for over 25 years. He has been involved with international activities for 15 years and active in the Japanese situation for the past 10. He met the Japanese as one of the people demanding they open up the market. Morse represented the National Cattlemen's Assn. on the Agricultural Technical Advisory Committee for Livestock and Livestock Products. As chairman of that group, he reported to the U.S. Secretary of Agriculture as a special trade representative for the U.S. He frequently traveled with the Governor of Montana and U.S. government officials to Japan.

"I have had high visibility in Japan. They sought me out when it came time to purchase property." Morse said. He was

involved in the process of locating and purchasing the Selkirk Ranch.

As was mentioned earlier, Morse agrees the Japanese are not only cautious but for the most part will not do business with strangers, period. In order to do business with the Japanese, a proper introduction is required. There are bunches of Americans going to the Japanese and saying "I can do this for you. . .", but a business relationship just will not develop under those circumstances.

"We (Zenchiku) are in this for the long haul, and very interested in improving the quality of our cattle," says Morse. Locally, we want to be viewed as a player and a good citizen."

Zenchiku runs 3,000 cows of which 80 percent are black with a Hereford base. Morse plans to buy and use the best bulls available.

The overall emphasis of the ranch is

Angus breeders Bryon Beukema, Jim Bradford, Willard and Doris White, and George and Jim Dalbey have shipped bred heifers to two firms, Shinmei Chikusan Co., Ltd. of Tochigi and Nishi Shoku Co. Dean met with Akiyoshi Takahashi, owner and president of the buyers of the last shipment, Shimnei Chikusan, who expressed his interest in buying as many as 2,000 head to stock a new ranch property in Hokkaido Prefecture (Northern Japan). From his experience at the trade show, Deans confident there will be many more companies touring the U. S. looking for quality cattle.

"In spite of the high cost of living in Japan, the per capita beef consumption will continue to rise and Angus beeders in the United States will see increased export sales in the coming years."

And, prospecta exist elsewhere in the Pacific rim. Besides Japan, burgeoning demand and improved incomes-lifestyles in Korea, China, and Taiwan are beckoning. Tony Clayton, international marketing specialist for the Department of Agriculture, State of Missouri, shared with Dean some interest from the Orient International Inc. and Chien Ying Co, Ltd. of Taiwan. These companies wanted more information specifically on Certified Angus Beef

"(t)here is a tremendous potential for Angus cattle and Certified Angus Beef in the Japanese market. I encourage you to pursue . . ."



During a lull, two Missourians, Tony Clayton and Dean Hurlbut, discuss the dynamics and potential of the Asian market.



Translator Tadao Sajima not only helped the communication but acted as a liaison for preliminary inquiries.



The Missouri contingent.

the improvement of their cattle and the production of high-quality beef targeted toward exports and the hotel/restaurant industry. They are interested in what Morse considers to be old line, mainstream thinking. He does not intend to wander away from strong maternal characteristics in his search for better carcasses with higher predictability.

"We are doing all kinds of exciting things," Morse says. "We are looking for breeders who are interested in a total program. We have a tremendous genetic pool available to prove some sires. Our main interest is in high quality carcasses. We are looking for universities to work with on advanced technology to improve the predictability of our carcass quality. We think from the perspective of a really good Angus breeder, they ought to be excited as heck about a company like our."

Zenchiku has been well received by local Angus breeders, but as Morse said, "not too many people are looking to buy a hundred registered Angus bulls."

When asked why there is such an interest by the Japanese in the cattle industry in the U.S., Morse replied "Well, is there? There may be ten or twenty transactions they are involved in but that's not necessarily a trend."

According to a study by the accounting firm, Kenneth Leventhal & Co., Japanese investors spent a record \$16.54 billion on U.S. real estate in 1988, up from \$12.77 billion in 1977. That boosts their holdings to a total of \$42.88 billion. (*Sacramento Union*, March, 1989)

Yet, *The Economist*, (February, 1989) reports Japan's direct investment in the United States is far behind that of Holland and Great Britain. The article suggested now is the time when America must work with Japan on how best to move from the post-1945 world to the post-1980's.

The reaction of John Morse might be quite accurate. In the beef industry, only a handful of business deals and property exchanges can be identified. More attention might be paid to those investments than warranted.

Still, in addition to the Zenchiku deal, other significant beef industry purchases and partnerships by Japanese during the past eighteen months include:

1) *Colonial Beef Co., Philadelphia, Pa.*, has joint ventures with Naigai Beef Ltd. of Japan including building "MeijiEn", the largest Japanese restaurant in the U.S.; establishing a trading company, Naigai American Inc.; and

opening the first U.S. butcher shop in Japan. They have, also, entered into an agreement with the second largest fishery in Japan Nishiro, to become a supplier of frozen poultry, soups, and pastas.

2) *Southfield Beef Packing Co., Fresno, Calif.*, has acquired the inactive O'Neill Meat Co. and will be operated by Ameripac International. This Japanese and American-backed entity is targeting the Pacific Rim market.

3) *Lucky Hereford Ranch, Loyalton, Calif.*, has formed a production partnership with Calco International, a San Francisco-based subsidiary of one of Japan's largest processed meat manufacturers and distributors..

4) *American First Beef Escondido, Calif.*, is owned by Japanese investors involved in the wholesaling and retailing of meats in Japan.

5) *Mt. Shasta Beef, Red Bluff, Calif.*, is a complex, joint venture involving feedlot interests in Red Bluff, Calif., and Fat City Feedlot at Gonzales which is now doing business as Monterey County Cattle Feeders;

Superior Packing Co., Dixon, Calif.; California Beef Processors, Paso Robles, Calif. and the Japanese trading concern Mercury Overseas. Hannan Corporation owns 90 percent of Mercury Overseas, the other 10 percent is owned by Masaki Tanabe. (Juliet Bischoff, senior associate editor, *Meat and Poultry* points out Mt. Shasta is typical of the complexity of Japanese involvement in the U.S. beef industry)

6) *Brinco Meat Company, San Francisco, Calif.*, is an export firm that sells specialty cuts to trading companies and wholesalers in Japan. Brinco is connected to Mercury Overseas through the Fat City Feedlot. (Monterey County Cattle Feeders.)

7) *Washington Beef Inc., Yakima, Wash.*, is owned by Tokyu Foods, a Japanese meat wholesaler. Actual owner is listed as Washington Agricultural Development Co., Inc., a subsidiary of Farmland Trading Ltd. Ikyo.

8) *Tama Meat Packing Corp., Tama, Iowa* is owned by an Australian company, Elders IXL. Tama, a CAB packer, has moved to fed cattle and Elders is producing portion-sized boneless cuts for export to Japan and Europe.

9) *Masami Cattle Ranch, Corning, Calif.*, owned by Japanese cattleman Masami Ishida, was purchased from Ray Anchorodoguy in August, 1987, for a reported \$7 million. Masami paid cash for the ranch after it had been on the block

for three years. A 6,000 head cattle feedlot and a packing plant in the Sacramento area will complete the firm's goals of exporting live cattle and processed beef to Japan.

10) *E.B. Manning & Co., Pico Rivera, Calif.*, has a long history of doing business with Japan. A trading subsidiary, Manning International, has been formed with Mercury Overseas. Cattle companies in Colorado are involved in the Manning and Mercury ventures.

11) *Harris Ranch, Coalina, Calif.*, have a long-standing relationship with the Japanese.

In sum, it seems more Zenchiku-Selkirk type deals can be expected as the Japanese become more entrenched and directly involved with the system.

Now, a question arises, do we have the numbers to meet the Japanese needs in breeding stock and finished cattle? Recio of MEF says, "It is going to be tight. The herd is the lowest it has been in 25 years. We are at 99 million. It's predicted this will be a \$2 billion market. If it happened tomorrow, no, we could not fill their needs."

Another concern is the market in Europe. According to Watson of MEF, "Products such as hides, lard, hoofs, and variety meats (i.e. livers and hearts) do not have a big market in the U.S. What is sold here goes to pet food, pharmaceuticals, and pesticides. The big market is overseas. Oftentimes these by-products represent the packer's margin of profit. The difference the packer gets for the meat he sells for food and what he gets for the by-products can be substantial. If the market in Europe dries up or slows down it will have a significant impact on the market. We have no other alternative market in the world that can absorb the \$130 million that Europe spends."

It's estimated beef prices in Japan will decrease by as much as 30 percent in the next two to five years due to the quota changes and as Japanese consumers discover beef doesn't have to be as expensive as it currently is there.

Although an average dollar amount can't be put on their beef because the market is so fragmented, in some grocery stores \$10 per pound beef can be found alongside the \$100 per pound Kobe beef.

According to Recio, at a restaurant you can pay anywhere from \$15 to \$100 for a steak entree. It depends on the restaurant and the quality you are buying. One can easily pay \$60 for a Kobe steak entree. While an average price for a six ounce to eight ounce steak of reasonable quality would be \$20 to \$25.

Statistics say the Japanese consume 13 pounds of beef per capita per year. That figure is expected to climb to 20 pounds per capita within the next five years. That could represent a substantial market for the U.S., and becomes espe-



cially important because per capita use of beef in the U.S. in the past 10 years has dropped by 20 pounds. It's expected to drop again from the 73 pounds level in 1987 to less than 60 pounds.

Headlines like the one in the January, 1989, Cattle Buyers Weekly—"Packers and Feeders Face Tough Year"—and *The Sacramento Union* headline, "Farmers Face Perilous Times" drives home that any avenue for exporting U.S. goods and creating new markets deserves serious thought.

"Right now we have to cultivate the Japanese demand for high quality beef and make sure we can deliver," says Recio. "Other&se they will go to the Australians."

At this time, the Australians are not as open and have not received the Japanese as has the U.S. They are very concerned about the Japanese buying up their meat industry. Recio feels the more we get the Japanese tied into production here, the better off we are going to be while getting a hammerlock on the Japanese market.

However, it's believed the Australians can sell beef cheaper than we can. Also, they have developed a system to guarantee and deliver 100-day shelf life to the Japanese retail market while U.S. technology is geared to only 30 to 40 days' shelf life. Another plus for the Australians is they spend \$30 million on research per year, compared to our \$4 million. (*Meat & Poultry*, February, 1989)

Ken Monfort, president, ConAgra Inc., believes the U.S. can compete with Australia for the Japanese market. In an article in the *National Cattlemen Magazine*, he contends the Australians don't have a domestic market for fed beef. If they feed cattle for the Japanese market and the Japanese only want to buy strip loin and top round, then Australians have a problem selling the other cuts at home.

The U.S. must show itself the leader in beef cattle production and technology to make itself the primary market source, think these experts. The Japanese know the superiority of grain-fed products and we must continue to reinforce that knowledge with delivery of high

Comparing U.S. export dollars to metric tons

An upward trend of dollars over metric tons in the U.S. beef export business is creating optimism among economists, cattle feeders, and packers as well as ranchers. Indications are cattle prices overall have intensified, and in general the Japanese are buying more expensive, higher quality cuts.

Even though 75 percent of our beef and veal exports are going to Japan, the growth in other markets is beginning to have a significant impact on the U.S. market.

U.S. Beef and Veal Exports in Million Dollars

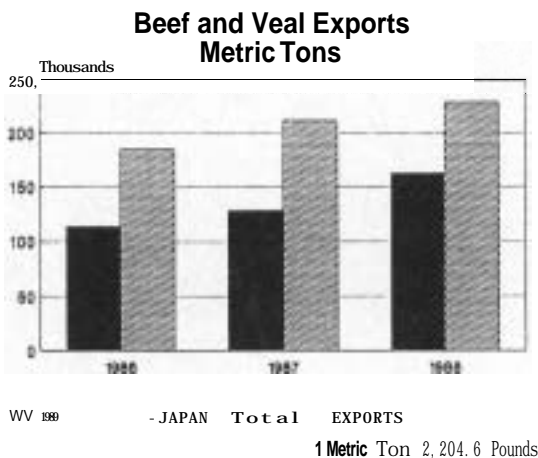
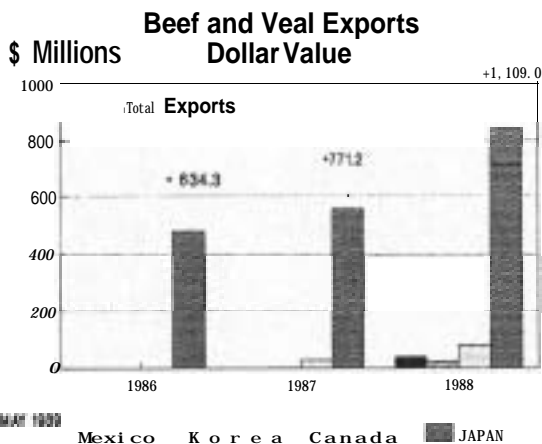
Country	1986	1987	1988
Japan	480.2	557.6	840.7
Canada		28.6	79.5
Mexico		1.1	39.9
Korea		1.7	25.6
Total U.S. exports	634.3	771.2	1,109.0 (billion)

U.S. Variety Meat Exports in Million Dollars

Country	1986	1987	1988
Japan	127.3	141.4	179.8
Total U.S. exports	326.4	336.2	442.0

U.S. Beef and Veal Metric Tonnage in Thousands

Country	1986	1987	1988
Japan	113,508	127,470	162,093
Total U.S. exports	184,404	210,969	228,613



quality beef, something most agree the Australians can't do.

Most economists and cattlemen believe the long-term effects of the Japanese market will be gradual. However, we have grown from \$480 million to \$840 million in just two years (see sidebar). The potential in Japan alone should be upwards of \$2 billion in five or six years. It could reach \$3 billion by the year 2000.

One producer remarked he thought the whole Japanese thing would blow over in a couple of years. He could be right in that Americans have always met the challenge of feeding the world. In a couple of years, the additional export market may well become routine and be absorbed into the everyday flow of business.

NCA's Tom Cook says, "For so many years we never gave exports much attention. We exported our residuals, products from the variety meat market, items of no demand in our country. We got rid of what we didn't want."

Now Japan has come into the market in a very big and serious way and has begun buying the better cuts of meat. That market will continue to be oriented toward the higher quality end of the business. This puts them into competition with our domestic buyers and is having a positive effect for the general cattlemen.

Even though the Japanese are investing in everything from ranches to processing plants, they realize they will never be able to produce the volume they need and must continue to rely on the U.S. cattlemen and others.

The challenge for the Angus breeder of the 1990's appears to be to produce **quality Angus** cattle in **numbers** to meet the rising demands of an expanding export market.

"Zenchiku is in Montana because of the very large genetic pool of superior cattle here," says Morse. "We want quality cattle. That's why we are in the U.S. and why we are focusing on Angus."

Such ought to be music to the ears of American Angus breeders!

AJ